

VZCZCXRO6597
PP RUEHROV
DE RUEHEG #3023/01 2840936
ZNR UUUUU ZZH
P 110936Z OCT 07
FM AMEMBASSY CAIRO
TO RUEHC/SECSTATE WASHDC PRIORITY 7162
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 CAIRO 003023

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STATE FOR NEA/ELA, NEA/RA
USTR FOR DONNELLY
COMMERCE FOR 4520/ITA/ANESA/OBERG

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [PREL](#) [IS](#) [EG](#)
SUBJECT: EGYPT AND ISRAEL AGREE TO LOWER ISRAELI QIZ
CONTENT REQUIREMENT

REF: 2006 CAIRO 7219

11. (U) The GOE and Government of Israel agreed on October 9 to reduce the required level of Israeli content in Qualified Industrial Zone (QIZ) exports to the United States. The agreement to lower the content requirement from 11.7 percent to 10.5 percent came in response to long-standing complaints by Egyptian manufacturers that they have been unable to meet increasing U.S. demand for QIZ exports, primarily ready-made garments, because of a lack of economical Israeli inputs such as chemicals, packaging and zippers.

12. (U) QIZ exports have grown robustly since the start of the program in the spring of 2005, including an 11 percent increase in the second quarter of 2007, compared to the second quarter of 2006. Overall exports in 2006 were \$627 million. The growth rate has begun to slow, however, constrained in part by a tightening Egyptian labor market (reftel) and competition from other textile exporters.

13. (SBU) The Egyptians have long argued for an 8 -percent content requirement to match the terms of the Jordanian QIZ agreement. Under the terms of the GOE-GOI-USG QIZ agreement, signed in December 2004, changes in the required level of Israeli content in QIZ exports do not require USG approval. However, the GOE and GOI have made a separate proposal to USTR Schwab (septel) to expand the QIZ into certain areas in Upper Egypt, which would require USTR approval. Text of a letter from the Israeli and Egyptian trade ministers to USTR Schwab follows. Embassy will forward the original to the Department.

14. (U) A Ministry of Trade official told econoff that the GOE would continue to push for a lower content requirement, and in fact Trade Minister Rachid Rachid made the same point publicly when announcing the deal. An Israeli embassy contact told Polcouns half-jokingly that the Egyptians will not be happy until the requirement is "zero."

15. (SBU) Comment: The lower content requirement could make new classes of exports, such as processed food, slightly more viable economically under the QIZ program, although textiles will continue to dominate Egyptian QIZ exports. End comment.

16. (SBU) Begin text of letter to USTR Schwab.

The Government of the Arab
Republic of Egypt

The Government of the
State of Israel

H.E. Ambassador Susan C. Schwab
United States Trade Representative
Washington D.C.

October 9, 2007

Your Excellency,

Since the signing of the QIZ Protocol in December 2004, the arrangement has proven to be a unique tool in both bilateral free trade and regional economic cooperation and judging by its results, we may conclude that it is a success.

In recognizing the importance of Qualified Industrial Zones in fostering an environment for international trade and investment, economic cooperation, creating new jobs, expanding trade, improving technology and enhancing economic development we have come to the conclusion that lowering the minimum 11.7% Israeli content to 10.5% would further enhance the economic ties between our two countries.

We are confident that you will consider this proposal positively. It is our intention that it will enter into force after your approval and upon completion of our internal legal requirements.

Please accept Your Excellency our thanks and the assurances of our highest consideration,

Yours sincerely,

Rachid Mohamed Rachid
Minister of Trade and Industry

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Arab Republic of Egypt

Eliyahu Yishai
Deputy Prime Minister
Minister of Industry, Trade and Labor
State of Israel
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